

By Rep. Peter Welch

On Wall Street, fifteen months must feel like a lifetime. How else can one make sense of an industry that would reward itself with a bumper crop of bonuses barely a year after pushing the economy to the brink of collapse?

Last week's parade of excess down Wall Street, as the nation's five biggest banks unveiled \$114 billion in compensation for the year, would be lamentable were it simply a story of greed. But history teaches that, left to its own devices, the banking industry has a tendency to engage in conduct that is not just self-enriching, but self-destructive.

Rarely has that tendency been displayed more clearly than in the run-up to the ongoing Great Recession. Fueled by a bonus culture that encouraged outsized risk for outsized reward, Wall Street bankers bet the house and prayed that the markets, as they always did, would continue to rise. When they fell – and fell hard – these same bankers, their defenders and their apologists assured the American public that a hard lesson had been learned.

But a mere fifteen months later, a collective amnesia appears to have swept over Lower Manhattan. Once again the bank chiefs are calmly reassuring us that the only way to retain top talent – and therefore rebuild our economy – is to dole out multimillion dollar bonuses to traders turning quick profits on commodities, currencies and complex derivatives.

Only this time, the banks have drafted a new partner in their well-established enterprise: the American taxpayer. A sizeable investment of capital in the form of the Troubled Asset Relief Program (TARP) and an abundance of cheap money, courtesy of the Federal Reserve, have combined to grease the wheels of Wall Street and return the likes of Goldman Sachs to profitability.

This investment has been good for most parties to the deal. The banks have been restored to their pedestal, the bankers are flush with cash – but the taxpayers who financed the deal are themselves struggling to find work and pay their bills.

Nowhere is that more clear than in places like Vermont, where small business owners are

asking, 'If the banks have enough money to pay themselves so much, how come they don't have a dime to lend me?'

While community banks in Vermont and throughout the country have maintained their commitment to small business lending in the face of trying economic circumstances, Wall Street has not followed suit. Indeed, a recent Treasury report confirmed that the 22 banks that received the most TARP support have reduced their small business lending by \$12.5 billion since April. As they pay out \$31.5 billion and \$26.9 billion in compensation to their employees, Bank of America and JPMorgan Chase have cut their small business loans 6.2 percent and 3.7 percent respectively.

The dearth of credit available to small businesses, which are collectively responsible for 70 percent of new jobs in this country, has had a devastating impact on our economic recovery. As the nation's unemployment rate lingers close to 10 percent, it is truly perverse to see the engines of job creation starving for lack of credit while Wall Street bankers cash in on taxpayer assistance.

Momentum is growing in Congress and around the country for some sort of tax on the most egregious of bonuses – similar to what the United Kingdom enacted and other European countries are considering. Opponents of bonus taxes tend to miscast its motivations as punitive or retaliatory, but nothing could be further from the truth.

Legislation I recently introduced in the U.S. House to tax exorbitant bonuses has, in fact, two very different goals. The first is to take on a compensation model that incentivizes short-term gain at the expense of long-term risk. It acknowledges the grave threat posed by very smart people making very serious mistakes guided by misaligned motivations.

The second goal is to prompt Wall Street to acknowledge the lifesaver it was thrown by the American taxpayer and return the favor by investing in small businesses around the country. It recognizes that when investment banks returned to profitability, they had the choice of shoring up their capital base, lending to businesses or lining their pockets – and they chose the latter.

My bill, the Wall Street Bonus Tax Act (H.R. 4426), places a 50 percent levy on any bonus compensation in excess of \$50,000 at firms that have received TARP assistance. It channels

revenues created by the legislation, which would likely be substantial, into a new direct-lending program to be administered by the Small Business Administration.

Critics of legislation to rein in compensation often argue that bonus decisions are best left to market forces and the benevolent wisdom of those at the helm of the nation's largest banks. Unfortunately, what we learned so painfully last year when Wall Street pushed our economy off a cliff – and what we're witnessing again in this season of excessive bonuses – is that the industry's so-called "enlightened self-interest" is heavy on the self-interest and light on the enlightenment.

As we work to create jobs and restore the American economy, we must enlist Wall Street as a partner. We must not allow it to cash in on taxpayer assistance when the taxpayers themselves are struggling to get by.